

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF EAST CLARK)	CASE NO.
COUNTY WATER DISTRICT FOR AN)	2021-00318
ALTERNATIVE RATE ADJUSTMENT)	

ORDER

On August 17, 2021, East Clark County Water District (East Clark District) filed an application with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service. Pursuant to the Commission's January 26, 2022 procedural Order, Commission Staff issued a report (Commission Staff's Report) on February 11, 2022 summarizing its findings regarding East Clark District's requested rate adjustment. In the Commission Staff's Report, Commission Staff found that East Clark District's adjusted test-year operations support an overall revenue requirement of \$1,628,128 and that an annual revenue increase of \$80,503, or 5.46 percent, is necessary to generate the overall revenue requirement.

On February 22, 2022, East Clark District filed with the Commission its comments on the Commission Staff's Report.¹ In its response, East Clark District did not agree with Commission Staff's removal of certain labor expenses from nonrecurring charges but did not wish to contest that adjustment in this case. East Clark District concurred with the findings presented in the Commission Staff's Report regarding water rates, with one

¹ East Clark District's Response to Commission Staff's Report (filed Feb. 22, 2022).

exception. East Clark District noted an error in the Commission Staff's Report that would increase the Revenue Requirement by \$20,552 above the \$1,628,128 calculated in the Commission Staff's Report. East Clark District requested that this adjustment be included in the final Order and requested that the Commission approve the rates in the Appendix of the Commission Staff's Report as soon as possible. With its comments, East Clark District did not request that a conference or hearing be held.

WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. The Commission notes that East Clark District reported in its 2020 Annual Report, a water loss of 16.34 percent.² Commission regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes, a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. At a 16.34 percent water loss, the annual cost to East Clark District is \$5,443,³ while the total cost of water loss is \$66,266.⁴

² *Annual Report of East Clark District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (Annual Report), at 57.

³

	Purchased Water	Purchased Power	Total
2020 Pro Forma Expenses	\$ 374,345	\$ 31,141	\$ 405,486
Multiplied by: Water Loss in Excess of 15 Percent	1.34%	1.34%	1.34%
 Excess Cost	 \$ 5,025	 \$ 418	 \$ 5,443

⁴

	Purchased Water	Purchased Power	Total
2020 Pro Forma Expenses	\$ 374,345	\$ 31,141	\$ 405,486
Multiplied by: Total Water Loss	16.34%	16.34%	16.34%
 Excess Cost	 \$ 61,177	 \$ 5,089	 \$ 66,266

BACKGROUND

East Clark District is a water district organized pursuant to KRS Chapter 273. It owns and operates a water distribution system through which it provides water service to approximately 2,563 residential customers and 16 commercial customers in Clark County, Kentucky.⁵ East Clark District does not produce any of its own water; rather, it purchases its water from Winchester Municipal Water and Kentucky American Water Company. This is East Clark District’s first general rate adjustment since 1998.⁶

TEST PERIOD

The calendar year ended December 31, 2020, was used as the test year to determine the reasonableness of East Clark District’s existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff’s Report summarizes East Clark District’s pro forma income statement as follows:

	2020 Annual Report	Rate Study Adjustment	Pro Forma Operations	Commission Adjustments	Final Pro Forma
Total Operating Revenues	\$ 1,464,409	\$ 41,117	\$ 1,505,526	-	\$ 1,505,526
Utility Operating Expenses	1,650,867	(146,550)	1,504,317	20,616	1,524,933
Net Utility Operating Income	(186,458)	187,667	1,209	(20,616)	(19,407)

MODIFICATIONS TO STAFF’S FINDINGS

East Clark District proposed adjustments to revenues and expenses to reflect current and expected operating conditions. In the Commission Staff’s Report,

⁵ *Id.* at 12 and 49.

⁶ Case No. 1998-00101 *In the Matter of an Adjustment of Rates of the East Clark County Water District* (Ky. PSC June 3, 1998).

Commission Staff proposed additional adjustments. The Commission accepts the findings contained in the Commission Staff's Report with modifications.

A. Billing Analysis Adjustment. East Clark District provided usage data by meter size listing the water usage and water sales revenue for the 12-month test year.⁷ The test period included a Purchase Water Adjustment (PWA) increase to rates which was included in the normalized billing analysis.⁸ Commission Staff calculated the data provided within a normalized billing analysis, which determined that \$1,468,373 for all retail customers is an accurate representation of the normalized test-year revenue from water sales. In the Commission Staff's Report, Commission Staff recommended an increase to East Clark District's test-year Water Sales Revenue of \$18,221⁹ to reflect the normalization of an increase in East Clark District's service rates through the PWA. The Commission finds that this adjustment is a known and measurable change to Total Metered Sales, is reasonable and is accepted.

Other Water Revenues-Nonrecurring Charges. In the Commission Staff's Report, Commission Staff recommended the addition to East Clark District's test-year Other Water Revenues of \$14,257¹⁰ to reflect the change in the nonrecurring charges. This amount includes an increase to Forfeited Discounts of \$5,713, an increase to Bulk Sales of \$4,733 to reflect the test year PWA, a Miscellaneous Service Revenue addition of

⁷ East Clark District's Response to Commission Staff's First Request for Information (filed Nov. 12, 2021, Item 9).

⁸ Commission Staff's Report at 10.

⁹ *Id.*

¹⁰ *Id.* at 9–11, Adjustment B.

\$3,380, and addition to Other Water Revenue of \$431.¹¹ The Commission finds that this adjustment is a known and measurable change to Other Water Revenues, is reasonable and is accepted.

Forfeited Discounts. In the Commission Staff's Report, Commission Staff recommended an increase to East Clark District's Forfeited Discount revenues to account for the lifting of the moratorium regarding late fee collection due to the COVID-19 pandemic. The amount of \$22,896 was normalized based on the 2019 late fee level because the test year of 2020 was not a reasonable proxy.¹² The Commission finds that this adjustment is a known and measurable change to Other Water Revenues, is reasonable and is accepted.

Salaries and Wages – Employees & FICA. In the Commission Staff's Report, Commission Staff recommended an increase to East Clark District's test-year Salaries and Wages Employees Expense of \$31,258 as well as an associated increase to Taxes Other Than Income to account for an increase in FICA Taxes of \$64. The Commission finds that this adjustment is known and measurable, and is accepted.

Salaries and Wages – Officers. In the Commission Staff's Report, Commission Staff recommended an increase to East Clark District's test-year Salaries and Wages Officers Expense of \$1,000 to account for a full year of the current compensation for the members of East Clark District's board. The Commission finds that this adjustment is known and measurable, and is accepted.

¹¹ *Id.* at 11, Adjustment B.

¹² *Id.* at 12, Adjustment C.

Employee Pensions and Benefits. In the Commission Staff's Report, Commission Staff recommended a decrease to East Clark District's test-year Employee Pension and Benefit Expense of \$127,812 to annualize the allowable health insurance premiums as well as adjust CERS contributions for the rate authorized as of July 1, 2021. The Commission finds that this adjustment is known and measurable, and is accepted.

Purchased Water. In the Commission Staff's Report, Commission Staff recommended an increase to East Clark District's test-year purchased water expense of \$10,276. However, as stated above, this was mistakenly applied as a decrease in Commission Staff's Pro Forma Calculation. The corrected application results in an increase from the Pro Forma amount included in the Commission Staff's Report of \$20,552. The Commission finds this updated adjustment to be known and measurable and is accepted.

Water Loss. In the Commission Staff's Report, Commission Staff recommended a decrease to East Clark District's Purchased Water and Power expenses of \$4,749 and \$418, respectively to reflect East Clark District's water loss in excess of 15 percent. With the updated adjustment discussed above, the Commission finds that the correct adjustments are a decrease to Purchased Water Expense of \$4,685, which is a reduction of \$64 from the adjustment recommended in the Commission Staff's Report. The Commission finds that these adjustments are known and measurable and is accepted.

Depreciation Expense. In the Commission Staff's Report, Commission Staff recommended accepting the adjustment proposed by East Clark District to reduce test-year Depreciation Expense by \$35,617, calculated by adjusting the useful lives of the East Clark District's assets to the midpoint of the National Association of Regulatory Utility

Commissioners Depreciation Study. The Commission finds that the adjustment keeps with Commission precedent and is a known and measurable change to test-year Depreciation Expense, and is accepted.

Based on the Commission's findings discussed above, the following table summarizes East Clark District's adjusted pro forma operations.¹³

	<u>Staff Pro Forma Operations</u>	<u>Commission Adjustments</u>	<u>Final Pro Forma</u>
Total Operating Revenues	\$ 1,505,526	-	\$ 1,505,526
Utility Operating Expenses	<u>1,504,317</u>	<u>20,616</u>	<u>1,524,933</u>
Net Utility Operating Income	<u>1,209</u>	<u>(20,616)</u>	<u>(19,407)</u>
Total Utility Operating Income	<u>\$ 1,209</u>	<u>(20,616)</u>	<u>\$ (19,407)</u>

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, East Clark District requires an increase in revenues of \$101,119, or 6.86 percent above pro forma present rate revenues, as shown below:

Operating Expenses	\$ 1,524,933
Add: Average Annual Debt Principal and Interest	103,176
Additional Working Capital	<u>20,635</u>
Overall Revenue Requirement	1,648,744
Less: Other Operating Revenue	(32,420)
Interest Income	(23,289)
Revenues from Contract Work	<u>(18,810)</u>
Revenue Requirement - Water Rates	1,574,225
Less: Normalized Revenue from Service	<u>(1,473,106)</u>
Required Revenue Increase	<u>\$ 101,119</u>
Percentage Increase	<u>6.86%</u>

¹³ See Appendix A for a complete Pro Forma.

RATE DESIGN

East Clark District proposed to increase all of its monthly retail water service rates evenly across the board by approximately 7.37 percent. East Clark District had not performed a cost of service study (COSS). East Clark District stated that it did not complete a COSS, as there have not been changes in the distribution of customer usage in many years, and an across-the-board increase is the most equitable means of passing the increased costs to customers. In the Commission Staff's Report, Commission Staff followed the method proposed by East Clark District and allocated Commission Staff's calculated revenue increase across the board to East Clark District's monthly retail water service rates.

In response to the Commission Staff's Report, East Clark District concurred with Commission Staff's findings as to water rates but noted an error in the Commission Staff's Report that would increase the Revenue Requirement by \$20,552 above the \$1,628,128 calculated in the Commission Staff's Report. East Clark District requested that this adjustment be included in the final Order.¹⁴ Commission Staff determined that a 6.86 percent increase is warranted.

The rates set forth in Appendix B to this Order are based upon the revenue requirement the Commission has found to be fair, just and reasonable, and will produce sufficient revenues from water sales to recover the \$1,574,225 Revenue Required from Water Sales, an approximate 6.86 percent over normalized test-year water sales of \$1,473,106. These rates will increase the monthly bill of a typical residential customer

¹⁴ *Id.*

using 4,000 gallons a month from \$48.10 to \$51.36, an increase of \$3.26, or approximately 6.78 percent.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The findings contained in the Commission Staff's Report are supported by the evidence of record and are reasonable.

2. The Commission has historically used a Debt Service Coverage (DSC) method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Application of the Commission's DSC method to East Clark District's pro forma operations results in an Overall Revenue Requirement of \$1,648,744. A revenue increase of \$101,119 from water service rates is necessary to generate the overall revenue requirement.

3. The water service rates proposed by East Clark District are denied.

4. The water service rates set forth in Appendix B to this Order are fair, just and reasonable and are approved.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Commission Staff's Report are adopted with modifications and incorporated by reference into this Order as if fully set out herein.

2. The general service rates proposed by East Clark District are denied.

3. The rates set forth in Appendix B to this Order are approved for services rendered by East Clark District on and after the date of this Order.

4. Within 20 days of the date of entry of this Order, East Clark District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

5. East Clark District shall use the midpoint of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the application and agreed upon by Commission Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in the accounting estimate.

6. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION



Chairman



Vice-Chairman

Commissioner

ENTERED
MAR 29 2022 rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00318 DATED MAR 29 2022

	Test Year	Staff Report Adjustment	Commission Adjustment	Pro Forma
Operating Revenues				
Retail Sales of Water	\$ 1,464,409	\$ 18,221		
		(14,257)		\$ 1,468,373
Bulk Sales		4,733		4,733
Other Water Revenues				
Forfeited Discounts		5,713		
		22,896		28,609
Misc Service Revenues		3,380		3,380
Other Water Revenues		431		431
Total Operating Revenues	<u>1,464,409</u>	<u>41,117</u>	<u>-</u>	<u>1,505,526</u>
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	301,267	31,258		332,525
Salaries and Wages - Officers	29,000	1,000		30,000
Employee Pensions and Benefits	301,417	(127,812)		173,605
Purchased Water	364,069	(10,276)	20,552	
		(4,749)	64	369,660
Purchased Power	31,141	(418)		30,723
Materials and Supplies	60,996			60,996
Contractual Services	103,471			103,471
Rental of Equipment	165			165
Transportation Expenses	18,104			18,104
Insurance - Other	32,053			32,053
Bad Debt	4,526			4,526
Miscellaenous Expenses	19,222			19,222
Total Operation and Mainenance Expenses	<u>1,265,431</u>	<u>(110,997)</u>	<u>20,616</u>	<u>1,175,050</u>
Depreciation Expense	360,062	(35,617)		324,445
Taxes Other Than Income	25,374	64		25,438
Total Operating Expenses	<u>1,650,867</u>	<u>(146,550)</u>	<u>20,616</u>	<u>1,524,933</u>
Utility Operating Income(Loss)	<u>\$ (186,458)</u>	<u>\$ 187,667</u>	<u>\$ (20,616)</u>	<u>\$ (19,407)</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00318 DATED MAR 29 2022

The following rates and charges are prescribed for the customers in the area served by East Clark County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000 Gallons	\$	28.08	Minimum Bill
Next	8,000 Gallons		0.01164	Per Gallon
Next	40,000 Gallons		0.01033	Per Gallon
Over	50,000 Gallons		0.00903	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$	62.98	Minimum Bill
Next	5,000 Gallons		0.01164	Per Gallon
Next	40,000 Gallons		0.01033	Per Gallon
Over	50,000 Gallons		0.00903	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$	121.16	Minimum Bill
Next	40,000 Gallons		0.01033	Per Gallon
Over	50,000 Gallons		0.00903	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$	224.50	Minimum Bill
Next	30,000 Gallons		0.01033	Per Gallon
Over	50,000 Gallons		0.00903	Per Gallon

3-Inch Meter

First	30,000 Gallons	\$	327.83	Minimum Bill
Next	20,000 Gallons		0.01033	Per Gallon
Over	50,000 Gallons		0.00903	Per Gallon

4-Inch Meter

First	50,000 Gallons	\$	534.50	Minimum Bill
Over	50,000 Gallons		0.00903	Per Gallon

Bulk Sales

		\$	0.00904	Per Gallon
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Nonrecurring Charges

5/8- X 3/4-Inch Meter Connection Charge	\$1,419.00
Connection/Turn-on Charge	19.00
Field Collection	19.00
Meter Reread	19.00
Meter Test	31.00
Reconnect Charge	31.00
Reconnection After Hours	100.00
Service Call / Investigation	19.00
Returned Check	10.00

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